

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name <b>Battle Creek Area Transportation Study</b>	County <b>Calhoun</b>
Fiscal Year End <b>September 30, 2006</b>	Opinion Date <b>November 14, 2006</b>	Date Audit Report Submitted to State <b>February 8, 2007</b>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

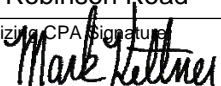
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) <b>REHMANN ROBSON</b>		Telephone Number <b>517.787.6503</b>		
Street Address <b>675 Robinson Road</b>		City <b>Jackson</b>	State <b>MI</b>	Zip <b>49203</b>
Authorizing CPA Signature 		Printed Name <b>Mark T. Kettner, CPA, CGFM</b>		License Number <b>11673</b>

# **BATTLE CREEK AREA TRANSPORTATION STUDY**



**Springfield, Michigan**

## **FINANCIAL STATEMENTS**

**For the Year Ended  
September 30, 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

# BATTLE CREEK AREA TRANSPORTATION STUDY

## TABLE OF CONTENTS

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	<b><u>PAGE</u></b>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements for the Year Ended September 30, 2006</b>	
Statement of Net Assets	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5-8
<b>Supplemental Schedules</b>	
Schedule of Expenses by Funding Source – Budget and Actual	9-10
Schedule of Allowable Costs (Exclusive of Costs Provided by Local Governments)	11

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**REHMANN ROBSON**

*Certified Public Accountants*

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INTERNATIONAL

## **INDEPENDENT AUDITORS' REPORT**

November 14, 2006

Policy Committee  
Battle Creek Area Transportation Study  
City of Battle Creek, Michigan

We have audited the accompanying basic financial statements of the ***Battle Creek Area Transportation Study*** as of and for the year ended September 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Study's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Battle Creek Area Transportation Study*** as of September 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Study has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, part of the financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the ***Battle Creek Area Transportation Study***. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

## **FINANCIAL STATEMENTS**

# Battle Creek Area Transportation Study

## Statement of Net Assets

September 30, 2006

### Assets

#### Current assets:

Cash	\$ 25
Accounts receivable	36
Due from grantor agencies	39,279
Due from City of Battle Creek	<u>28,181</u>

Total current assets	67,521
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Capital assets, net	<u>2,495</u>
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<b>Total assets</b>	<u><u>70,016</u></u>
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### Liabilities

#### Current liabilities:

Accounts payable	4,164
Accrued payroll	2,099
Due to grantor agencies	10,245
Accrued compensated absences	<u>5,169</u>

<b>Total liabilities</b>	<u><u>21,677</u></u>
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### Net assets

Invested in capital assets	2,495
Unrestricted	<u>45,844</u>

<b>Total net assets</b>	<u><u>\$ 48,339</u></u>
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The accompanying notes are an integral part of these financial statements.

# **Battle Creek Area Transportation Study**

## **Statement of Activities**

**For the Year Ended September 30, 2006**

### **Program revenue - operating grants and contributions**

#### Federal grants:

Federal Highway Administration \$ 107,156

Federal Transit Administration 22,264

State grant 23,134

#### Local government contributions:

City of Battle Creek 21,933

Calhoun County Road Commission 14,980

City of Springfield 2,067

Other revenue 500

Total program revenue 192,034

### **Expenses - transportation studies**

Data collection and analysis 72,999

Long range transportation planning 23,604

Short range transportation planning 1,259

Special projects and studies 30,207

Public involvement 7,590

Program development and management 46,221

Non-grant activity 2,770

Total expenses 184,650

Change in net assets 7,384

Net assets, beginning of year 40,955

**Net assets, end of year \$ 48,339**

The accompanying notes are an integral part of these financial statements.

# Battle Creek Area Transportation Study

## Statement of Cash Flows

For the Year Ended September 30, 2006

### Cash flows from operating activities:

Receipts from other governments	\$ 205,479
Payments to employees	(142,783)
Payments to suppliers	<u>(59,272)</u>

Net cash provided by operating activities 3,424

### Cash flows used in capital and related financing activities:

Acquisition of capital assets	<u>(3,424)</u>
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Net change in cash -

Cash, beginning of year 25

**Cash, end of year** \$ 25

### Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 7,384
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,535
Changes in assets and liabilities:	
Receivables	8,687
Due from City of Battle Creek	(17,891)
Accounts payable	38
Accrued expenses	(1,087)
Due to grantor agencies	<u>4,758</u>

**Net cash provided by operating activities** \$ 3,424

The accompanying notes are an integral part of these financial statements.



# **BATTLE CREEK AREA TRANSPORTATION STUDY**

## **Notes To Financial Statements**

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Reporting Entity**

The Battle Creek Area Transportation Study (“Study”) is an intermunicipality committee organized under Michigan Public Act 200 of 1957. The Study’s purpose is to assist in the development and preservation of a safe, effective, well-maintained, efficient, and economical transportation system for the Battle Creek metropolitan area which minimizes its negative impacts on the physical and social environments and related land use. The Study is not a component unit of any other government.

#### **Basis of Accounting**

The Study uses a single proprietary or enterprise fund to account for and report its financial activities. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The Study follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Study has elected not to follow subsequent private-sector guidance.

#### **Cash**

The Study’s cash consists of \$25 in petty cash on hand. The Study does not maintain its own depository accounts. The City of Battle Creek (a member government of the Study) maintains accounting records, deposits cash receipts and processes cash disbursements through the City’s pooled cash accounts. The amount reported as due from City of Battle Creek at year end represents the balance of the Study’s interest in the pooled cash account of the City at year end.

#### **Capital Assets**

Equipment is recorded at cost and is depreciated using the straight-line method over estimated useful lives of three to five years.

# BATTLE CREEK AREA TRANSPORTATION STUDY

## Notes To Financial Statements

### Compensated Absences

It is the Study's policy to permit employees to accumulate earned but unused vacation leave pay benefits up to a maximum of fifteen days or the equivalent of three normal work weeks. All vacation pay is accrued when incurred since 100 percent of the unused benefits are payable upon employee separation from service with the Study.

## 2. DUE FROM/TO GRANTOR AGENCIES

Amounts reported as due from and due to grantor agencies represent the difference between costs eligible for reimbursement and the amount received to date. The details of amounts due from and due to grantor agencies are as follows:

	<b>Due from Grantor Agencies</b>	<b>Due to Grantor Agencies</b>
FHWA, Section 112		
Billed	\$ 25,003	\$ -
2003 cost settlement	-	786
2004 cost settlement	3,276	-
2005 cost settlement	-	3,123
2006 cost settlement	-	3,453
Total FHWA, Section 112	<u>28,279</u>	<u>7,362</u>
FTA, Section 5303		
Billed	4,733	-
2003 cost settlement	-	197
2004 cost settlement	708	-
2005 cost settlement	-	632
2006 cost settlement	-	757
Total FTA, Section 5303	<u>5,441</u>	<u>1,586</u>
MDOT, M-Fund		
Billed	5,321	-
2003 cost settlement	-	383
2004 cost settlement	238	-
2005 cost settlement	-	366
2006 cost settlement	-	548
Total MDOT - M-Fund	<u>5,559</u>	<u>1,297</u>
Total	<u><u>\$ 39,279</u></u>	<u><u>\$ 10,245</u></u>

# BATTLE CREEK AREA TRANSPORTATION STUDY

## Notes To Financial Statements

### 3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006, was as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Ending Balance</u></b>
Capital assets, being depreciated - Equipment	\$ 48,101	\$ 3,424	\$ 24,505	\$ 27,020
Less accumulated depreciation for - Equipment	<u>47,495</u>	<u>1,535</u>	<u>24,505</u>	<u>24,525</u>
<b>Capital assets, net</b>	<b><u>\$ 606</u></b>	<b><u>\$ 1,889</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,495</u></b>

### 4. OPERATING LEASES

The Study leases office space from the City of Springfield (a member government of the Study) under an operating lease. The lease is a ten-year non-cancelable operating lease requiring annual payments of \$4,000 through October 2012. The following is a schedule of future minimum lease payments required under this operating lease as of September 30, 2006:

<b><u>Years Ending September 30</u></b>	<b><u>Amount</u></b>
2007	\$ 4,000
2008	4,000
2009	4,000
2010	4,000
2011	4,000
2012-2013	<u>8,000</u>
<b>Total</b>	<b><u>\$ 28,000</u></b>

During the year ended September 30, 2006, the Study had rent expense of \$4,000.

# **BATTLE CREEK AREA TRANSPORTATION STUDY**

## **Notes To Financial Statements**

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### **5. DEFINED CONTRIBUTION PENSION PLAN**

The Study provides pension benefits for all of its employees through a defined contribution pension plan. The plan requires the Study to contribute 15% of each qualified employee's base salary to the plan. Plan provisions and contribution requirements are established and may be amended by the Study's Policy Committee. The Study made the required contribution of \$15,709 for the year ended September 30, 2006.

### **6. RISK MANAGEMENT**

The Study is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2006, the Study carried commercial insurances to cover all risks of losses. The Study has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

### **7. RELATED PARTY TRANSACTIONS**

As discussed previously, the Study has entered into certain agreements with member governments. The two agreements are with the City of Battle Creek for accounting services and with the City of Springfield for the lease of office space. During the year ended September 30, 2006, the Study paid accounting service fees to the City of Battle Creek in the amount of \$3,300 and rent expense to the City of Springfield in the amount of \$4,000.

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## **SUPPLEMENTAL SCHEDULES**

**Battle Creek Area Transportation Study**  
**Schedule of Expenses by Funding Source - Budget and Actual**  
**For the Year Ended September 30, 2006**

		Federal Highway Administration			
		Section 112 Funds			
		Project Agreement			
Work Element	Description	#2006-0001(Z1) (Job#85192)		Local Match	
		Budget	Actual	Budget	Actual
DATA COLLECTION & ANALYSIS					
1.0000	Data Collection and Analysis	\$ 44,931	\$ 34,041	\$ 9,963	\$ 7,548
1.0040	Asset Management	971	855	215	190
	Subtotal	45,902	34,896	10,178	7,738
LONG RANGE TRANSPORTATION PLANNING					
2.0428	2030 Long Range Transportation Plan	20,981	16,422	4,652	3,641
SHORT RANGE TRANSPORTATION PLANNING					
2.0520	Short Range Transit Planning	-	-	-	-
SPECIAL PROJECTS AND STUDIES					
2.0601	Transportation Improvement Program	8,070	8,070	1,790	1,789
2.0618	Coord. with Statewide Planning	2,132	2,255	473	500
2.0619	Special Studies	1,170	985	259	218
2.0641	Safety Conscious Planning	4,643	3,031	1,030	672
2.0645	Air Quality Planning	6,664	5,951	1,478	1,320
	Subtotal	22,679	20,292	5,030	4,499
PUBLIC INVOLVEMENT					
3.0000	Public Involvement	2,754	1,853	611	411
3.0001	Transportation and Safety Education	4,606	3,427	1,021	760
	Subtotal	7,360	5,280	1,632	1,171
PROGRAM DEVELOPMENT AND MANAGEMENT					
4.0102	Unifies Work Program	3,929	3,287	871	729
4.0103	Program Management	28,011	26,979	6,211	5,982
	Subtotal	31,940	30,266	7,082	6,711
TOTAL		\$ 128,862	\$ 107,156	\$ 28,574	\$ 23,760

Federal Transit Administration				Michigan Department of Transportation	
Section 5303 Funds Project Agreement #2006-001(Z2) (#85188)				100% Reimbursed Asset Management #2006-0001(Z3R1)	
Local Match					
Budget	Actual	Budget	Actual	Budget	Actual
\$ 7,750	\$ 5,871	\$ 1,937	\$ 1,468	\$ -	\$ -
106	93	26	23	30,000	22,910
7,856	5,964	1,963	1,491	30,000	22,910
3,619	2,833	905	708	-	-
1,344	1,007	336	252	-	-
1,972	1,972	493	493	-	-
232	245	58	61	-	-
202	170	50	42	-	-
1,134	741	284	185	-	-
1,149	1,026	287	257	-	-
4,689	4,154	1,172	1,038	-	-
475	320	119	80	-	-
795	591	199	148	-	-
1,270	911	318	228	-	-
960	803	240	201	-	-
6,844	6,592	1,711	1,648	-	-
7,804	7,395	1,951	1,849	-	-
<b>\$ 26,582</b>	<b>\$ 22,264</b>	<b>\$ 6,645</b>	<b>\$ 5,566</b>	<b>\$ 30,000</b>	<b>\$ 22,910</b>

Continued...

**Battle Creek Area Transportation Study**  
**Schedule of Expenses by Funding Source - Budget and Actual (Concluded)**  
**For the Year Ended September 30, 2006**

		Michigan Department of Transportation			
		100% Reimbursed			
		Safety			
		#2006-0001(Z4)		Totals	
Work Element	Description	Budget	Actual	Budget	Actual
<b>DATA COLLECTION &amp; ANALYSIS</b>					
1.0000	Data Collection and Analysis	\$ -	\$ -	\$ 64,581	\$ 48,928
1.0040	Asset Management	-	-	31,318	24,071
	Subtotal	-	-	95,899	72,999
<b>LONG RANGE TRANSPORTATION PLANNING</b>					
2.0428	Update the 2025 Transportation Plan	-	-	30,157	23,604
<b>SHORT RANGE TRANSPORTATION PLANNING</b>					
2.0520	Short Range Transit Planning	-	-	1,680	1,259
<b>SPECIAL PROJECTS AND STUDIES</b>					
2.0601	Transportation Improvement Program	-	-	12,325	12,324
2.0618	Coord. with Statewide Planning	-	-	2,895	3,061
2.0619	Special Studies	-	-	1,681	1,415
2.0641	Safety Conscious Planning	1,500	224	8,591	4,853
2.0645	Air Quality Planning	-	-	9,578	8,554
	Subtotal	1,500	224	35,070	30,207
<b>PUBLIC INVOLVEMENT</b>					
3.0000	Public Involvement	-	-	3,959	2,664
3.0001	Transportation and Safety Education	-	-	6,621	4,926
	Subtotal	-	-	10,580	7,590
<b>PROGRAM DEVELOPMENT AND MANAGEMENT</b>					
4.0102	Unifies Work Program	-	-	6,000	5,020
4.0103	Program Management	-	-	42,777	41,201
	Subtotal	-	-	48,777	46,221
<b>TOTAL</b>		<b>\$ 1,500</b>	<b>\$ 224</b>	<b>\$ 222,163</b>	<b>\$ 181,880</b>



# Battle Creek Area Transportation Study

## Schedule of Allowable Costs

(exclusive of costs provided by local governments)

For the Year Ended September 30, 2006

	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
Salaries and wages	\$ 60,302	\$ 30,484	\$ 90,786
Fringe benefits	33,816	17,094	50,910
Office supplies	-	1,208	1,208
Printing and copying	-	209	209
Postage	-	303	303
Membership and subscriptions	-	301	301
Professional services	-	789	789
Bookkeeping services	-	3,300	3,300
Training and travel	-	1,834	1,834
Communications	-	2,287	2,287
Insurance and bonds	-	4,025	4,025
Office equipment maintenance	-	260	260
Rent	-	4,000	4,000
Depreciation	-	1,535	1,535
	<u>\$ 94,118</u>	<u>\$ 67,629</u>	<u>\$ 161,747</u>
<b>Other direct costs</b>	<u>\$ 3,021</u>		
Indirect costs as a percentage of direct payroll and fringe benefits		<u>71.856%</u>	
Fringe benefits as a percentage of salaries and wages			<u>56.077%</u>
<b>Fringe benefit detail</b>			
Vacation, sick and holidays	\$ 9,433	\$ 4,768	\$ 14,201
Social security and Medicare	5,427	2,744	8,171
Retirement contribution	10,434	5,275	15,709
Health and welfare	7,852	3,969	11,821
Workers' compensation and unemployment	670	338	1,008
	<u>\$ 33,816</u>	<u>\$ 17,094</u>	<u>\$ 50,910</u>



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



November 14, 2006

To the Policy Committee of the  
Battle Creek Area Transportation Study  
Springfield, Michigan

We have audited the financial statements of the ***Battle Creek Area Transportation Study*** for the year ended September 30, 2006, and have issued our report thereon dated November 14, 2006. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated November 10, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Battle Creek Area Transportation Study. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Battle Creek Area Transportation Study are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Battle Creek Area Transportation Study during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of other depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

**Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Battle Creek Area Transportation Study's financial reporting process (that is, cause future financial statements to be materially misstated). As described in the accompanying memorandum, we proposed numerous material adjusting journal entries, which in our judgment, had a significant effect on the Battle Creek Area Transportation Study's financial reporting process.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Battle Creek Area Transportation Study's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Battle Creek Area Transportation Study, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

# **Battle Creek Area Transportation Study**

## **Comments and Recommendations**

**For the Year Ended September 30, 2006**

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During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated November 14, 2006 on the financial statements of the Battle Creek Area Transportation Study.

### **Internal Controls – Segregation of Duties**

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Village's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Study lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Study's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Study's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

# **Battle Creek Area Transportation Study**

## **Comments and Recommendations**

**For the Year Ended September 30, 2006**

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### **Accounting for Capital Assets**

The Government Finance Officers Association (GFOA) has established three recommended practices for governments that relate to the accounting for capital assets, which can be found on their website at <http://www.gfoa.org/services/rp/caafr.shtml>. In the first recommended practice titled “Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets,” the GFOA recommends that capitalization thresholds not be established at an amount less than \$5,000 for any individual item. The second recommended practice relates to establishing estimated useful lives of capital assets. The last practice recommends guidelines to ensure control over noncapitalized items.

As we noted in the prior year, equipment is recorded at cost with no stated capitalization threshold and is depreciated over estimated useful lives of three to five years. We recommend that the Agency review the GFOA’s recommended practices and consider modifying its current policy on capital assets.

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